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EASTERN

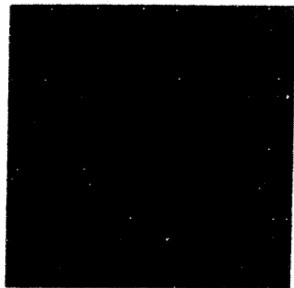
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1948

PALESTINE ✓

FILE No. 14 688

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EASTERN DEPARTMENT

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PALESTINE A

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14688

Registry Number } E14688/14688/3
FROM Board of Trade Communicated
No.
Dated
Received } 16th Nov
in Registry }

Economic and Financial Sanctions against Italy.
Encloses copy of memorandum on sanctions against Italy by Mr. Shackle dated 31st May 1944.

Last Paper

(Minutes.)

References

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1944

68702
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(Index)

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Next Paper

E14722

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NOTE BY MR. SHACKLE

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Economic and Financial Sanctions against Italy.

Historical. 1. Italy invaded Abyssinia on 3rd October, 1935, direct negotiations between the two countries having failed, as well as an attempt by the Council of the League of Nations to effect a settlement under Art.15 of the Covenant. This attack happened to coincide with a meeting of the Council of the League of Nations, at which Abyssinia invoked Art.16 of the Covenant of the League. By October 7th a Sub-Committee of the Council reported the conclusion that Italy had gone to war in disregard of its Covenants under Art.12 of the Covenant of the League of Nations. This report was accepted successively during the next few days by the Council and the Assembly of the League, 50 States Members thus recognising that Italy had violated Art.12 and that the measures prescribed in Art.16 had become applicable. (Austria, Hungary and Albania expressed their inability to apply sanctions against Italy; Switzerland made special reservations).

2. First a Co-ordinating Committee consisting of representatives of all the 'Sanctionist' Countries, and then a less unwieldy Sanctions Sub-Committee of Eighteen were set up to recommend the measures to be taken. (Among others, the U.K., France, U.S.S.R., South Africa and Canada were represented on the Committee of Eighteen.) The Committee made, between October 11th and November 6th, five main Proposals for forms of action to be undertaken against Italy, viz:-

Proposal I: prohibition of export and re-export of arms, munitions and military types of aircraft to Italy; lifting of any prohibition of such supplies to Abyssinia.

/Proposal II:

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Proposal II: prohibition of all loans, credits and subscriptions to Italy and (Proposal 2) of acceptance of new deposits in Italy's favour under Clearing Agreements. (This was later supplemented by a recommendation that Sanctionist Countries should set up unilateral clearing arrangements under which trade debts due to Italy would be collected in order to liquidate trade debts due by Italy).

Proposal III: prohibition of importation of all goods from or originating in Italy and Italian possessions. Italian goods which had, since leaving Italy, undergone processes elsewhere adding 25% or more to their value, were exempted. A Committee of Experts later recommended the raising of this proportion to 50%. (Gold and silver coin and bullion, books, newspapers, and some other categories of trade were also exempted).

Proposal IV: prohibition of export and re-export to Italy of (a) transport animals; (b) rubber; (c) iron ore and scrap and various non-ferrous metals and ores essential for war purposes, in their unwrought state, viz. aluminium and bauxite, chromium, manganese, nickel, titanium, tungsten, vanadium, and ferro-alloys of these metals.

Proposal IVA: recommended the extension of the prohibition of export and re-export to Italy, "as soon as the conditions necessary to render this extension effective have been realised", to cover:

petroleum and its derivatives;
pig iron; iron and steel cast, forged, rolled, etc; coal, coke, etc.

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The reason given for not recommending an immediate embargo on these goods was that they were to a large extent not under the control of the participant States. (The subsequent developments in regard to oil are described in para.4 below).

Proposal IVB: measures to prevent indirect supply to Italy of the prohibited materials.

Proposal V : recommended the organisation of mutual support between the 'sanctionist' States, so as to offset as far as possible losses which the application of Sanctions might have involved.

(It was not found possible to take any action on various appeals for financial assistance made by Abyssinia to the League).

3. These Proposals were communicated to all Member States of the League and also to non-Member States. By the 1st February, 1936, it was found that -

52	Governments	had	agreed	to	Proposal	I
52	"	"	"	"	"	II
50	"	"	"	"	"	III
51	"	"	"	"	"	IV
46	"	"	"	"	"	V

The actual application of the various Proposals no doubt varied in its effectiveness between different States, but with the exceptions of Austria and Hungary, and of Switzerland which applied them only to a limited extent, and of Argentina which never applied the prohibition on imports, all the Member States purported to apply them, and apparently most of them did so fairly effectively. No action was taken by the Non-Members, notably the U.S.A., Germany, Japan and Brazil, though the U.S. Government gave indications that it sympathised with the policy and did, in fact, prohibit the export of arms and ammunition and the giving of loans and credit to either side under the neutrality legislation.

In this country, the various measures were applied by Orders made under the Treaty of Peace Act 1919 : see S.R. & O. 1935 Nos.1038, 1039 and 1076. Under Proposal V (mutual assistance) we made certain duty concessions on Yugoslav agricultural produce in order to assist that country.

4. As regards Proposal IVA, a Committee of Experts was set up on January 22nd 1936, to consider an embargo on the export and transport to Italy of petroleum.

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By 12th February this Committee reported that

- (i) if the embargo were universally enforced, it would become effective in 3 to 3½ months;
- (ii) if applied only by the 'sanctionist' countries, it would be effective if the U.S. limited their exports to Italy to the 1935 level;
- (iii) if applied only by the 'sanctionist' countries, it would merely make it more difficult and expensive for Italy to purchase petroleum;
- (iv) tankers belonging to 'sanctionist' countries might be prohibited from proceeding to Italy and the sale of tankers to non-sanctionist States prohibited.

This report was merely noted by the Co-ordination Committee in March, and the Committee of Experts was asked to produce a further report on the methods of applying an oil embargo if one were decided on. The experts made a second report in favour of extending the embargo to petroleum products and putting restrictions on tankers as previously suggested.

The Foreign Secretary stated at the League on 2nd March that the U.K. Government favoured the application of the oil embargo, but at the same time supported a French proposal that there should be a prior attempt to bring hostilities to an end. There the matter rested.

5. The failure of an attempt at conciliation by the League Committee of Thirteen was noted by the Council on 20th April. By that time hostilities were practically over and early in May the Emperor Haile Selassie fled from Abyssinia. Mussolini proclaimed the official end of the war on May 5th and on May 10th the King of Italy assumed the title of Emperor of Abyssinia.

6. In these circumstances the question arose whether sanctions should be withdrawn. There was considerable division of opinion on the subject, the Dominions and a number of the smaller States favouring their continuance; on the other hand France and the South American countries generally favoured their withdrawal. The official French view was that Article 16 of the Covenant no longer applied when the war was over. Poland unilaterally withdrew her sanctions measures

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before a general decision had been reached.

7. The question was examined in a memorandum submitted by the Foreign Secretary to the Cabinet on 11th June (C.P.159(36)). In this it was pointed out that sanctions if continued would only act as a slow debilitating irritant; if they were effective, Italy might go to war with us, and the attitude of France in that event was uncertain. Abyssinia could not be re-created without the use of military force, and this could not happen without the collapse of the Fascist regime. Meantime Germany and Japan might create disturbances elsewhere. In conclusion the Foreign Secretary suggested that we should take the lead in proposing that sanctions be withdrawn. This was approved by the Cabinet, and the Foreign Secretary proposed it accordingly to a special session of the League Assembly on 1st July. He stated the view of H.M.G. that as only military measures could re-establish the situation in Abyssinia, and as such measures seemed out of the question, the continuation of sanctions could serve no useful purpose. The Assembly approved his proposal, and asked the Co-ordination Committee to recommend to the participant Governments a date for terminating sanctions; this was fixed at July 15th, 1936.

8. Effect of Sanctions on Italy.

This question was examined in a memorandum prepared, before the decision to terminate sanctions, by the Foreign Office in consultation with the other Departments principally concerned (Treasury and Board of Trade). This memorandum dated 3rd June, 1936 (C.P.154(36)) drew attention to the following salient points:-

- (i) During the first two months of 1936, when sanctions began to come into effective operation, the value of Italian trade with the world was about halved compared with the corresponding period of 1935, imports and exports falling in about equal proportions;
- (ii) Italy's trade with the non-sanctionist countries at first increased, but afterwards showed a marked tendency to decline in both directions;
- (iii) Imports by 'sanctionist' countries from Italy, which accounted previously for 50 per cent. of world imports from Italy, had

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fallen to only 9 per cent. by February 1936;

- (iv) While sanctions were in full operation and the Abyssinian hostilities continued, Italy appeared to be losing gold at the rate of 350/400 m. gold lire a month (about 55 gold lire = £1 at rates of exchange then current). Her reserves in the Bank of Italy amounted at the end of 1935 to about 3.4 milliard lire of gold and foreign credits. The following estimates were offered:-

	<u>Milliard lire.</u>
Reserve on 31st December 1935	3.4
Expended to end April, 1936	1.8
<u>Add</u> for gold purchases and offerings and for realised securities	1 to 2 (very conjectural)

The conclusion was drawn that probably Italy's gold stock would be falling dangerously low by the end of 1936 if normal trade were not meantime restored.

- (v) As regards the prohibition of certain exports to Italy, the effects of this were lessened by (a) anticipatory purchases by Italy for stock, and (b) her ability to purchase in the non-sanctionist countries, especially the U.S.A.
- (vi) Though politically they might have unified the nation, sanctions had had a serious economic effect and had intensified the already deteriorating economic position of Italy as a whole;
- (vii) The mere removal of sanctions, while alleviating Italy's foreign exchange position to a considerable extent, would not remove the inherent weakness in the Italian economy.
- (viii) If existing sanctions were maintained the position of Italy would be becoming grave towards the end of the year 1936.

9. Comments and Conclusions.

- (a) The position of Italy was in itself very vulnerable to sanctions, owing to (i) her almost complete lack of vital fuels and raw materials needed for war, and (ii) her already weak and deteriorating economic position, resulting from the over-valuation of the lire, the inessential nature of most of her exports, the decline in their price resulting from the great depression, and the diversion of her productive resources to, and her lavish expenditure of foreign exchange on, military preparations. The operation of these various factors had already led her to impose widespread and drastic restrictions on imports in the early months of 1935. In fact, the imposition of sanctions, particularly as regards the embargo on imports from Italy, really only intensified and accelerated a deterioration which was already taking place spontaneously. In

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this respect, Italy offered a particularly promising subject for ⁶
the experiment of economic sanctions.

(b) On the other hand, certain factors essential to the quick success of such sanctions were lacking. Although Italians in a position of authority (e.g. Signor Grandi), admitted that the gradual exhaustion of Italy's gold and foreign exchange reserves must in time have brought her military operations to an end, this process was too slow, as experience showed, to alter the course of events. A comprehensive embargo on essential exports to Italy, and particularly of oil, had it been found possible to enforce it effectively, would have been likely to prove more speedily effective. As has already been seen, the Committee of Experts on oil reported in February, 1935 that a complete embargo on oil exports to Italy would have led to the exhaustion of her reserves in 3 to 3½ months. Actually however this sanction (in common with the proposed embargo on coal and on pig iron, unwrought steel, etc.) was never enforced. This was partly owing to the presumed abstention of the U.S.A. and other non-participants, and partly, it seems, to the fear (entertained particularly by the French) that so provocative a step might have led Italy to declare war on the chief 'sanctionist' countries, with unforeseeable repercussions elsewhere. Thus there were two particular and fatal weaknesses in this attempt to apply economic sanctions, viz.

(i) the fact that certain countries of great economic importance were not participating, and

(ii) the generally disturbed political conditions of the time, which as pointed out in the Foreign Secretary's memo. referred to in paragraph 7 above, might have meant a military clash with Italy over sanctions, possibly precipitating wider disturbances elsewhere, such as our then state of military preparedness would not have enabled us to contemplate.

(c) Thus it appears fair to conclude that economic sanctions are unlikely in any case to be effective unless-

(i) the majority of countries, and practically all those ^{of} economic importance, are participating; and

(ii) the participants are prepared in the last resort to face becoming involved in war, possibly with other countries besides that against which the sanctions are directed.

If, but only if, these two conditions are realised, it seems possible that economic sanctions might in favourable circumstances fulfil a useful role, in weakening the war potential of an 'aggressor' country,

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and so making her less capable of withstanding more forcible measures of restraint, should these eventually prove necessary.

10. Views of the A.T.B. Committee. The Advisory Committee on Trade Questions in Time of War (A.T.B. Committee) of the Committee of Imperial Defence prepared two reports on the subject of sanctions against Italy during 1935. The first of these (C.I.D.1188-B) was made prior to the decision to apply sanctions. The second report (C.I.D.1194-B) completed at the beginning of October, made suggestions as to the economic and financial sanctions which this country might advocate at Geneva. These were broadly similar to the proposals actually adopted. The Committee did not favour a proposal that League ports be closed to Italian shipping, as being too provocative. They regarded another suggestion that the Suez Canal might be closed to Italian ships, as a military measure outside their competence, though similar considerations obviously applied to it. They also rejected a suggestion for the interruption of postal communications.

After sanctions had been withdrawn this Committee prepared a review of the history in the light of their previous recommendations. This paper is No.A.T.B.143 (also C.I.D. Paper 1292-B) of 22nd December, 1936. It forms a useful document of reference supplementing in certain respects the information given above. The points of chief importance in the paper for present purposes appear to be the following:-

- (1) As regards exports to Italy, the difficulties anticipated by the Committee in the case of non-participating States, i.e. largely increased direct sales of essential imports to Italy arose. From November, 1935, to February, 1936, Italy took 170 mill. lire more goods from non-sanctionist countries than during the corresponding period a year earlier. Italy was able by blandishments or threats to immobilise completely Austria, Hungary and Albania and partially Switzerland, Argentina and Chile, and to avert the imposition of an oil embargo, the latter being the sanction that was most feared in Italy. The suggestion of its application produced threats of war and brought to light great differences of opinion between France and Great Britain.

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(ii) As regards imports from Italy, a complete prohibition of imports by all League countries would have cut off some 70 per cent. of Italy's export trade. In fact the reduction during the period January to March, 1936, was rather less than 52 per cent. of the value of Italian exports during the corresponding period of 1935. The principal reason why sanctions did not reduce Italian exports in this period by as much as 70 per cent. was, of course, the defection of Austria and Hungary on sanctions generally and that of Switzerland and the Argentine on the import prohibition. Together these four countries took 17 per cent. of Italy's exports in 1934. Italy also succeeded in increasing to some extent her exports to Germany and the U.S.

(iii) Refusal of supplies to Italy. The effect of the refusal of certain supplies to Italy by sanctionist countries was to some extent negated by large anticipatory purchases which she made, particularly of coal, oil, rubber, nickel and copper, timber, and explosives, and the building up of large stocks prior to sanctions.

The embargo on exports was ineffective in various aspects. Thus, while the export of iron ore and scrap iron was prohibited, that of pig iron and steel was allowed to continue. Moreover, no embargo was applied to exports of manufactured goods incorporating any of the prohibited materials, apart from arms, munitions, and military aircraft.

The general conclusion previously reached by the Committee that, without a state of war, a prohibition of essential exports to Italy would be comparatively ineffective, was confirmed by experience.

The Committee's conclusions included the following:-

- (1) The course of events seemed to have borne out the conclusion that the imposition of sanctions on Italy without exercise of belligerent rights, i.e. without the existence in practice of a state of war between the U.K. and Italy, would be ineffective in stopping the Italo-Abyssinian war in any limited period, and that the steps which could be carried through at the League would be governed by the practical consideration that the likelihood of the extension of the war would be in direct proportion of the effectiveness of sanctions.
- (2) The sanctions policy produced in Italy the serious irritation foreshadowed and the introduction of largely ineffective counter-sanctions. The sanctions imposed, however, failed to achieve their purpose. The Abyssinian armies collapsed before the sanctions had attained their full effect on Italian reserves of gold and foreign exchange. Italy was able, by anticipatory accumulation and a continued, though reduced, flow of imports, to find sufficient stocks of the materials she required.

As regards the Committee's conclusion (1), it should be observed that the question of belligerent rights of course derived its importance from the fact that a number of economically powerful countries were not participating in the sanctions against Italy. It would not have been so material a factor had they participated.

Board of Trade.

31st May, 1944.

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1948

PALESTINE A

14722

Registry Number E14722/14688/3

FROM

Foreign Office
Minute

No.

Dated 10th Nov

Received 16th "
in Registry

Palestine- Possible application of sanctions
by the Security Council.

Text of Agenda for meeting to be held on Nov 8th for the purpose of discussing the policy to be adopted by the United Kingdom in this matter and line to be taken by the United Kingdom Delegation to the General Assembly should the Security Council impose sanctions against the Jewish authorities for refusing to withdraw from the positions conquered by them since October 14th.

Last Paper

E 14688

References

(Print)

(How disposed of)

upts.

- A. Young. [unclear]
- R.B. Gooding. B.O.P.
- R.B. Mitchell. ref. [unclear]
- J.H. Green. m/reference
- F. Milner. ext. [unclear]
- J. Murray. m/transport
- [unclear]. m/food
- C.S. Loomis. m/reference
- E.A. Cornwell. B.O.P.

from Mr. [unclear] 11 Nov.

(Action completed)

(Index)

[Signatures and initials]

Next Paper

E 15087

(Minutes.)

This was the agenda for the FO meeting of Nov. 8th. Attached also is a list of the officials who attended the meeting.

As a result of the meeting and further tels. from Paris a draft paper was circulated to all those who attended the meeting and copies were also sent to Mr Dodds, Ady., Mr Irving My. D.P.A. and Mr Townsend C.P.O. All deptal. Comments have now been received and Mr Burrows has a copy of the paper with

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With the relevant amendments
attached and inserted.

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Mr Cable

JB NV. 15

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M Beith 12/11.

7.0 Minute, M Beith 10/11

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Palestine

Possible application of Sanctions.

The Security Council of the United Nations passed a Resolution on November 4 calling on both parties in Palestine to withdraw their forces in the Negeb and appointing a Committee of the Council consisting of the five Permanent Members with Belgium and Colombia "... in the event that either party or both should fail to comply with the preceding paragraph [In which the parties are called upon to withdraw] within whatever time limits the Acting Mediator may think it desirable to fix, to study as a matter of urgency and to report to the Council on further measures it would be appropriate to take under Chapter VII of the Charter."

Chapter VII of the Charter is the chapter which contains references to sanctions. In particular, Articles 41 and 42 read as follows:-

"Article 41.

The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon the Members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations.

Article 42.

Should the Security Council consider that measures provided for in Article 41 would be inadequate or have proved to be inadequate, it may take such action by air, sea, or land forces as may be necessary to maintain or restore international peace and security. Such actions may include demonstrations, blockade, and other operations by air, sea, or land forces of Members of the United Nations."

It is not yet known what time limit the Acting Mediator will fix for the withdrawal. It seems very likely on present information that the Jews will refuse to withdraw. In that case the Committee of the Council will have to start work immediately - perhaps in the second half of this week.

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The U.K. Delegation require instructions about the attitude they are to take in the Committee, both as regards proposals they are to make for international action and as regards what they can say that H.M.G. will themselves be ready to do.

Among the measures which can be taken under Article 41 are economic sanctions of all kinds and the lifting of the arms embargo in favour of the Arabs while maintaining it against the Jews. It should be noted that Article 41 deals only with action to be taken by individual Members of the United Nations and not to preventive action, e.g. blockade, which falls under Article 42.

It is suggested that the meeting should discuss whether it is possible for the U.K. Delegation to recommend the application of the following measures under Article 41 and to undertake that H.M.G. will put these measures into effect and how effective they would be as means of pressure on the Jewish Government to comply with the Security Council's orders:-

- (a) Severance of financial relations (with particular reference to the extent to which this is being done already in the U.K.).
- (b) Severance of all trade relations (? effect on citrus purchases and possible potash purchase).
- (c) As a particular case of (b) denial of all oil supplies, including the supplies of refined products now being made by British and American companies (? effect on proposals to export crude oil through Haifa and alternative sources of supply for the Jews from Russia).
- (d) As a further particular case of (b) denial of food supplies. This is likely to be one of the most crucial sanctions in view of the dependence of the Jews on imported food.
- (e) The interruption of rail, sea, air, postal, telegraphic, radio and other means of communication mentioned in Article 41.

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Some of these measures, e.g. sea and air communication seem to be a necessary adjunct of the severance of financial and trade relations but should probably not be considered in isolation.

(f) The discriminatory raising of the Security Council arms embargo so as to allow the purchase of arms by the Arab States while maintaining and strengthening the embargo against the Jews.

The first sanction to be applied under Article 42 would clearly be that of blockade. It is only by blockade that such measures proposed under Article 41 would be made effective since we could not count on willing co-operation from Soviet countries. It is suggested that the U.K. Delegation should therefore propose the establishment of a blockade at the same time as the imposition of the measures to be taken under Article 41. The composition of the blockading forces would also be a subject of very great difficulty.

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MINUTE

E 14722/14688/31 11

Palestine - Possible Application of Sanctions
by the Security Council. **INDEXED**

A meeting was held at the Foreign Office on November 8th for the purpose of discussing the policy to be adopted by the United Kingdom in this matter and the machinery which could be employed if the Security Council should impose sanctions against the Jewish authorities for refusing to withdraw from the positions they have conquered since October 14th. The following were present:-

- | | |
|--------------------------------------------|---------------------------------------------------------------------------------------|
| Foreign Office | Mr. Wright
Mr. Mason
Mr. Burrows
Mr. Chadwick
Mr. Evans
Mr. Hugh Jones |
| Treasury | Mr. Norman Young |
| Bank of England | Mr. Loombe |
| Board of Trade | Mr. Couldrey |
| Ministry of Fuel & Power | Mr. Mitchell |
| Ministry of Transport | General Money
Mr. Bellamy |
| Ministry of Defence | Mr. Green |
| Export Licensing Dept. -
Board of Trade | Mr. Cornell |
| Overseas Negotiations
Committee | Mr. Milner |
| X Ministry of Food | Mr. Haig. |

The agenda for the meeting was a Note prepared by the Eastern Department and in particular the six points (a) to (f).

~~Minutes of the meeting on this subject~~
~~Minutes of the meeting on this subject~~
~~Minutes of the meeting on this subject~~

attached

Jas Beith
NW. 10

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Draft for circulation to Government Departments and possible submission to Ministers

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Center
12

Palestine

Possible application of Sanctions.

The Security Council of the United Nations passed a resolution on November 4th calling on both parties in Palestine to withdraw their forces in the Negeb and appointing a committee of the Council consisting of the five permanent members with Belgium and Colombia"... in the event that either party or both should fail to comply with the preceding paragraph [in which the parties are called upon to withdraw] within whatever time limits the Acting Mediator may think it desirable to fix, to study as a matter of urgency and to report to the committee on further measures it would be appropriate to take under Chapter VII of the Charter." Chapter VII is the chapter which contains references to sanctions. It seems likely on present information that the Jews will refuse to withdraw from the positions they have recently won and the possibility foreseen in this paper is therefore that the United Nations will have to consider applying sanctions against them.

2. We know that the United States, Canada and France feel considerable doubts about the application of sanctions in practice. Some powers, particularly the United States, would need to take legislative action before they could apply most of the economic sanctions which are to be discussed. The U.S. could not pass legislation until January and even then would find great political difficulty in doing so. On the other hand, it is clear that the failure

of/

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BAR (summary)
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MTC Wright
10.11

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from the point of view of British interests as it would enable undertakings to the Arab States to be fulfilled, thereby strengthening the internal security of the Arab states, the stability of their governments and the whole Middle East defence system. There is the additional advantage that this action does not require legislation and can be carried out by administrative measures. There may be criticism that to allow arms to reach even the innocent party is not the way to solve the present problem but it should be represented that those arms are now essential to the defence of Arab states against Jewish aggression.

(2) The U.K. Delegation should press for the severance of financial ~~and trade~~ relations between members of the United Nations and the Jewish State, ~~at least in the first instance~~ ~~except that no restriction should be placed on the import of essential foodstuffs into the Jewish State.~~ Many countries will be unable to take this action without legislation but we should at least try to secure agreement that governments should use all their existing powers in this direction and in particular, that they should make no new loans to the Jews and that they should use such powers as they have to prevent loans being made by non-governmental agencies.

(4) The U.K. Delegation should press for the total interruption of sea, air, postal, telegraphic and radio communications with Jewish territory. This will be subject to the same reservation as (2) with regard to imports of essential foodstuffs.

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(3) The UK Del. should press for the severance of trade relations between members of the UN & the Jewish state, except that in the first instance no restrictions should be placed on the import of essential foodstuffs into the Jewish state.

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(5)
(4) As many countries are likely to be unable or unwilling to apply (2) and (3) above effectively, particularly in view of the unlimited possibilities for evasion in the permitted trade in foodstuffs, the only effective control on imports and exports and on financial dealings is likely to be by means of blockade. This measure falls under Article 42 (Military sanctions) as opposed to Article 41 (economic sanctions). It is recommended that the U.K. Delegation should make it clear that this is their view but that we should not insist on the imposition of a blockade at once but should ask for it to be planned with a view to its imposition if the other sanctions prove ineffective. The composition of the blockading force will of course require most careful consideration.

5. Discussion.

Financial relations. H.M.G. have for some time been behaving ~~more or less~~ ^{a modified form of} as if the proposed sanction were in force. Releases from Palestine sterling balances are only made after applications have been scrutinised by the Bank of England and the Treasury, for the purchase of essentials, principally foodstuffs and oil. If the proposed sanction were agreed ~~these releases would stop.~~ ^{these releases would stop.} ~~releases would be confined to those for essential foodstuffs only.~~

6. If H.M.G. and the United States Govt. were to apply the proposed financial sanction conscientiously it would almost certainly be most effective. H.M.G. can do this easily but the United States almost certainly can not do so without entirely new legislation and even so it is

most/

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most doubtful how effective any control would be since there would, e.g. be nothing to prevent the transfer of dollars to Italy from where they would be transferred to Jewish territory, on the justifiable assumption that Italian control would in any case be ineffective.

7. The U.S. Government are considering a loan of 100 million dollars from the Export Import Bank to the Jews and it should at least be possible to persuade them to agree not to proceed with any such proposal while the Jews are disobeying the Security Council.

8. Trade relations. ~~THESE~~ Control can to some extent be exercised in the case of the U.K. by means of export and import licensing but the financial control referred to above is likely to be effective in itself in preventing trade movements. Here again United States action is likely to be considerably delayed at the best and the recommendation that the movement of essential foodstuffs to Jewish territory should not be restricted will provide endless possibilities of evasion and falsification. It has been carefully considered whether the recommendation could be made that we should press for the stoppage of food supplies. This would undoubtedly be by far the quickest and most effective means of applying pressure on the Jews to make them comply with the Security Council ruling, but it may be regarded as certain that the United States would never agree to such a proposal and it seems most dangerous politically for us even to suggest it. The

9. ~~THESE~~ Severance of trade relations

would/

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Severance of financial relations will make it difficult for the Jews to say for food.

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would have a most tiresome result for the U.K. in that we would not be able to obtain the Jewish citrus crop which we are on the point of purchasing. The loss of this fruit would mean a serious reduction of the fresh fruit available in the U.K. during the winter. Owing to a bad home crop, the amount of fruit this winter would in any case be less than half that available last year (a very good year). Without Palestine citrus, we should be worse off still. If it is clear in the course of discussion that economic sanctions are going to be effectively applied by the Majority of the members of the United Nations including those whose participation is most important in practice, we ought to be prepared to pay our part even at the risk of losing part or the whole of the Palestine citrus crop (part of it might be shipped before sanctions become effective). But if it is clear that sanctions are not going to be agreed or are not going to be made effective, there is no need for us unilaterally to deprive ourselves of this fruit. In the meantime it is suggested that the Ministry of Food need not withhold signature of the contracts about to be signed with Palestine growers. If it were later decided to apply sanctions effectively, the contracts would have to be cancelled or suspended on the plea that this was incumbent upon H.M.G. owing to the over-riding nature of United Nations obligations over all other international obligations.

10. A particularly important item under this heading would be the denial of all supplies of refined/

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refined^{oil} products or crude oil. The Jews have recently purchased 30,000 tons of refined products from Roumania at a high price but they are, generally speaking, dependent on Great Britain and ~~the~~ the United States for such supplies. It would be simple for H.M. Government to advise Shell, the British Company principally concerned, to cease all supplies (which are already strictly limited to peaceful requirements on a month to month basis). It is not known what powers the U.S. Government have to take similar action with Socony Vacuum but it should be possible, if the United States Government are in whole-hearted co-operation with the policy of sanctions, to prevent Socony from supplying.

// The interruption of communications is one of the measures mentioned in Article 41. It is a particularly difficult measure to apply even with the controls which exist in the U.K. It is recommended nevertheless that it should be part of the proposed sanctions, particularly as a prelude to consideration of the blockade.

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2. We know that the United States, Canada and France feel considerable doubts about the application of sanctions in practice. Some powers, particularly the United States, would need to take legislative action before they could apply most of the economic sanctions which are to be discussed. The U.S. could not pass legislation until January and even then would find great political difficulty in doing so. On the other hand, it is clear that the failure of the Security Council to enforce its decision in this case will threaten the whole future course of United Nations' action with regard to Palestine. We and the U.S. are agreed that the aim of United Nations policy on Palestine should be an early final settlement based on the Bernadotte proposals, but these proposals will have to be implemented by organs of the United Nations with the authority of the Security Council in the background to prevent obstruction by either party. Moreover one of the most important parts of the Bernadotte proposals is that as soon as a definitive line has been established by the United Nations between the two parties, they should be assured by the United Nations that this boundary will be respected and maintained. The value of any such assurances will be nil unless the Security Council takes effective action in the present case. Apart from the question of Palestine it is strongly felt that failure by the Security Council to act effectively would deal a serious blow at the position and authority of the United Nations as a whole.

3. For these reasons it will be necessary for the U.K. Delegation to take an active part in the discussions which will be held in the event of the Jews failing to comply with the Security Council resolution. This paper, when approved, will serve as a brief for the U.K. Delegation.

4. Recommendations.

(1) The U.K. Delegation should press for the raising of the Security Council arms embargo in favour of the Arabs and its strengthening against the Jews. Such a result would be most valuable from the point of view of British interests as it would enable undertakings to the Arab States to be fulfilled, thereby strengthening the internal security of the Arab states, the

stability/

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stability of their governments and the whole Middle East defence system. There is the additional advantage that this action does not require legislation and can be carried out by administrative measures. There may be criticism that to allow arms to reach even the innocent party is not the way to solve the present problem but it should be represented that those arms are now essential to the defence of Arab states against Jewish aggression.

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(5) As many countries are likely to be unable or unwilling to apply (2), (3) and (4) above effectively, particularly in view of the unlimited possibilities for evasion in the permitted trade in foodstuffs, the only effective control on imports and exports and on financial dealings is likely to be by means of blockade. This measure falls under Article 42 (military sanctions) as opposed to Article 41 (economic sanctions). It is recommended that the U.K. Delegation should make it clear that this is their view but that we should not insist on the imposition of a blockade at once but should ask for it to be planned with a view to its imposition if the other sanctions prove ineffective. The composition of the blockading force will of course require most careful consideration.

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8
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OUT FILE

11th November, 1948.

I now enclose a copy of a paper which has been prepared in this Department, as a result of the inter-Departmental meeting held on November 8th, about the possible application of sanctions by the United Nations in Palestine.

I am sorry that, owing to developments since our meeting, this paper has been subject to alterations and has taken longer than we originally expected to complete. As the guidance contained in it is still urgently required by our Delegation at Paris I must ask you to be good enough to telephone your comments or concurrence to me, if at all possible, by 5 p.m. November 12th.

(Signed J.G.S.Beith).

Norman E. Young, Esq.,
C.M.G., M.C.,
H.M. Treasury.

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R. C. Couldrey, Esq.,
Board of Trade.

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R. C. Mitchell, Esq.,
Ministry of Fuel and
Power.

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G. H. Green, Esq.,
Ministry of Defence.

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F. Milner, Esq.,
Overseas Negotiations Committee,
H.M. TREASURY.

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General R.C. Money, C.B., M.C.,
Ministry of Transport.

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G. A. Haig, Esq., O.B.E.,
Ministry of Food.

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C. E. Loombe, Esq.,
Bank of England.

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E. J. Cornell, Esq.,
Export Licencing Department,
Board of Trade.

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(Inland Transport) "TRANSMINNY, TELEX, LONDON."
Telephone: Abbey 7711 EXT.

Any further communication should be
addressed to
THE SECRETARY,
(address as opposite)

and the following reference quoted



10W27
MINISTRY OF TRANSPORT,
BERKELEY SQUARE HOUSE,
LONDON, W.1.

12.12

Your Reference

My dear Beilts

Sanctus Palestine

14722/14688/11

INDEXED

1. We have prepared an addendum to para 11 enclosed.
2. our Transport Div. says 10 is a bit misleading. The sale of R.O.P allows Russia to purchase with "neutral" language on crude oil as the Jews require. There is a real risk they will suffer crude which would be a nuisance for the owners of the refinery.
3. It gives you a ring also about 5. as much crude of the citrus is expropriated for the Arabs.

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Queen how murder pays a
dividend —

your sincerely

Perfumer

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Addition to para. 11 of Foreign Office paper on possible application of sanctions to Palestine received on the 11th November.

In so far as shipping is concerned, it should be remembered that although the carriage of "lawful" cargo is implicit in the licensing system applied to vessels on the U.K. register, the object of the system is to direct tonnage to the carriage of essential cargoes in the interests of the U.K. economy. It is thus a misuse of the system to apply it to the enforcement of economic sanctions.

No doubt the implication of "lawful" could be in some way fitted into our U.N. obligations, but this might give rise to technical difficulties.

It should also be borne in mind that any policing by H.M.G. of cargoes carried by British vessels to Palestine from third countries is impracticable, as our difficulties in preventing illegal immigration have clearly shown.

On all counts, therefore, a more efficient application of sanctions can be obtained by financial and trade measures at the source of the cargo than by attempting ~~to~~ direct control of shipping.

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Inst. 11/11/47*

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1948

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E 15087

PALESTINE A

Registry Number E15087/14688/31
FROM
 Foreign Office
 Minute
 No. Mr. Burrows
 Dated 18th Nov
 Received 24th "
 in Registry

Draft paper on the possible application of sanctions in Palestine.
 Encloses draft paper resulting from an inter-departmental meeting and incorporates the points subsequently made by all the departments concerned to whom the draft was circulated at E14722/14688/31.

Last Paper

E14722

(Minutes.)

see minute within

References

(Print)

(How disposed of)

- Mr. Burrows Camps.
- A. Young. Hy.
- R. S. Bauldry. C.R.T. B.O.T.
- E. F. Bennett. E.L.D. "
- G. A. Haig. M/FOOD
- Gen Money. M/Transport
- G. B. Dadds. Admty
- G. H. Green. M/Reference
- J. L. Lacey. M.C. A
- Tomarand. S.F.O.
- R. C. Mitchell. M/F.P. P.T.O.

(Action completed)
 J.P.M./r

(Index)
 [Signature]

Next Paper

(E278/1103/31. 49)

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~~F. Palmer. O.W.C. by
P. R. Lamb. R/England.~~

~~encs Nov. 26~~

~~apt H Bealey
U.K. Det. Paris
from M. Harrows
Nov 22.~~

/The

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Minutes.

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The draft paper on the possible application of sanctions states, in paragraph 4, that further releases of sterling, which were in contemplation have been suspended pending the decision on sanctions. This is no longer true. A few days ago, Miss Loughane telephoned to me to ask whether a decision was likely in the near future, as the Treasury are under severe pressure to make the further releases. I replied that the probability of any early decision on sanctions had now become remote and that there could be no justification from the political view in holding up the further releases proposed.

Jre

((J.E. Chadwick))

29th November, 1948.

Nothing to be written in this Margin.

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822/1131

Copies of the letter to Mr. Beeley and the enclosure should now be sent to all ~~XXXXXXXXXXXX~~ departments whose representatives were present at the meeting on sanctions (see E14722/14688/3) i.e.

✓ Treasury	Norman Young
Board of Trade	
(1) Export Licensing	E.J. Cornell
(2) C.R.T.	? Mr. Couldrey
✓ Miny/Food	G.A. Haig,
✓ Miny/Transport	General Money
× Admiralty	G.C.B. Dodds
✓ Min/Defence	G.H. Green
War Office	? Col. Charteris
Air Ministry	? A.V.M. Foster
× Min/Civil Aviation	J.L. Irving? WIMY
× G.P.O.	? TONASE AD
✓ Min. Fuel & Power	R.C. Mitchell
✓ Overseas Negotiations Committee	F. Milner
✓ Bank of England	C.E. Loombe

M. F. Wilson

Eastern Dept. R 73
23/11/48.

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I attach a draft paper on sanctions in Palestine. It results from an inter-departmental meeting and incorporates the points subsequently made by all the departments concerned to whom the draft was circulated.

The most serious comment made was that of the Board of Trade who are very much afraid of the danger mentioned in paragraph 3 of the attached draft that we may lose valuable trade connections in Palestine by imposing or recommending severe sanctions without in fact securing the effective imposition of sanctions at all. We have done our best to meet this comment by the present wording of paragraph 3 and at various other points in the draft.

It is suggested that the paper might now be sent to the U.K. Delegation in Paris for their comments and that they should be authorised to use it in non-committal and informal discussions with friendly delegations if they think this desirable in order to see exactly where the other delegations stand. They should not give copies of the paper to any other delegation or make any public proposals. Subject to the views of the U.K. Delegation and perhaps of other delegations with whom they speak, we would then have to consider submitting this paper or something like it to Ministers in order to get final approval for the U.K. Delegation to make definite proposals whether in private or in public for action on these lines by the Security Council.

J.A.B. Surnow

18th November, 1948.

The chances of sanctions being imposed by S.C. are so slender that I don't think it is worth sending this memo to our delegation in Paris. J.A.B. 22

Yes. The Sec S has told me that in his view we ought not to allow the question of citizens to stand in the way of action, if action were otherwise feasible perhaps 19.11

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SECRET

Palestine

Possible application of Sanctions.

The Security Council of the United Nations passed a resolution on November 4th calling on both parties in Palestine to withdraw their forces in the Negeb and appointing a committee of the Council consisting of the five permanent members with Belgium and Colombia "... in the event that either party or both should fail to comply with the preceding paragraph [in which the parties are called upon to withdraw] within whatever time limits the Acting Mediator may think it desirable to fix, to study as a matter of urgency and to report to the Committee on further measures it would be appropriate to take under Chapter VII of the Charter." Chapter VII is the chapter which contains references to sanctions. It seems likely on present information that the Jews will refuse to withdraw from the positions they have recently won and the possibility foreseen in this paper is therefore that the United Nations will have to consider applying sanctions against them.

2. We know that the United States, Canada and France feel considerable doubts about the application of sanctions in practice. Some powers, particularly the United States, would need to take legislative action before they could apply most of the economic sanctions which are to be discussed. The U.S. could not pass legislation until January and even then would find great political difficulty in doing/

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doing so. On the other hand, it is clear that the failure of the Security Council to enforce its decision in this case will threaten the whole future course of United Nations' action with regard to Palestine. We believe that the aim of United Nations policy on Palestine should be an early final settlement based on the Bernadotte proposals, but these proposals will have to be implemented by organs of the United Nations with the authority of the Security Council in the background to prevent obstruction by either party. Moreover one of the most important parts of the Bernadotte proposals is that as soon as a definitive line has been established by the United Nations between the two parties, they should be assured by the United Nations that this boundary will be respected and maintained. The value of any such assurances will be nil unless the Security Council takes effective action in the present case. Apart from the question of Palestine it is strongly felt that failure by the Security Council to act effectively would deal a serious blow at the position and authority of the United Nations as a whole.

3. Recommendations.

The U.K. Delegation should do everything possible to ensure that effective action is taken by the Security Council in the event of an unfavourable reply to the November 4 resolution but great care should be exercised that H.M.G. do not find themselves left in the position of being the only state to enforce sanctions immediately and effectively while other states would be unwilling or would be prevented/

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prevented for an indefinite period from taking similar action. This paper should therefore be used as a brief for the U.K. Delegation in the first instance for private discussions with friendly delegations on the Security Council and the action to be taken by the U.K. Delegation in public meetings of the Security Council should be decided in the light of these discussions. The detailed proposals which the U.K. Delegation should press friendly delegations to agree to are the following -

(1) The U.K. Delegation ~~should~~^{might} press for the raising of the Security Council arms embargo in favour of the Arabs and its strengthening against the Jews. Such a result would be most valuable from the point of view of British interests as it would enable undertakings to the Arab States to be fulfilled, thereby strengthening the internal security of the Arab States, the stability of their governments and the whole Middle East defence system. There is the additional advantage that this action does not require legislation and can be carried out by administrative measures. There may be criticism that to allow arms to reach even the innocent party is not the way to solve the present problem but it should be represented that those arms are now essential to the defence of Arab states against Jewish aggression.

(2) The U.K. Delegation ~~should~~^{might} press for the severance of financial relations between members of the United Nations and the Jewish State. Many countries will be unable to take

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this action without legislation but we should at least try to secure agreement that governments should use all their existing powers in this direction and in particular, that they should make no new loans to the Jews and that they should use such powers as they have to prevent loans being made by non-governmental agencies.

(3) The U.K. Delegation ~~should~~^{might} press for the severance of trade relations between members of the United Nations and the Jewish state, except that in the first instance no restrictions should be placed on the import of essential foodstuffs into the Jewish state.

(4) The U.K. Delegation ~~should~~^{might} press for the total interruption of sea, air, postal, telegraphic and radio communications with Jewish territory. This will be subject to the same reservation as (3) with regard to imports of essential foodstuffs.

(5) As many countries are likely to be unable or unwilling to apply (2), (3) and (4) above effectively, particularly in view of the unlimited possibilities for evasion in the permitted trade in foodstuffs, the only effective control

on imports and exports and on financial transactions is likely to be by means of blockades. This is the principle under Article 42 (military sanctions) as opposed to Article 41 (economic sanctions). It is recommended that the U.K. Delegation should make it clear that this is their view but that we should not insist on the imposition of a blockade as such but should ask for it to be implemented with a view to its imposition if the other sanctions prove ineffective. The imposition of the blockading force ~~will~~^{would} be a matter of some importance and should be given careful consideration.

3./...

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4. Financial Relations.

His Majesty's Government would be in a position to apply the proposed sanction forthwith. The principal balances of Palestine are frozen, and up to the present moment no funds have been available for any purpose other than the payment of the salaries of the Government officials. The Government are unable to pay the salaries of the officials of the Government of Palestine, and the Government are unable to pay the salaries of the officials of the Government of Palestine. The Government are unable to pay the salaries of the officials of the Government of Palestine, and the Government are unable to pay the salaries of the officials of the Government of Palestine.

1. The Government of Palestine are unable to pay the salaries of the officials of the Government of Palestine, and the Government are unable to pay the salaries of the officials of the Government of Palestine. The Government are unable to pay the salaries of the officials of the Government of Palestine, and the Government are unable to pay the salaries of the officials of the Government of Palestine.

2. The U.S. Government is considering a loan of 100 million dollars from the Export-Import Bank to the Government of Palestine. It should not be possible to assume that the Government will proceed with any such proposal while the arms are frozen in the Security Council.

7. Price Relations.

Control should to some extent be exercised in the case of the U.K. by means of export and import/....

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licencing but the financial control referred to above, if strictly applied would in itself have the effect of preventing trade movements. Here again United States action is likely to be considerably delayed at the best and the recommendation that the movement of essential foodstuffs to Jewish territory should not be restricted will provide endless possibilities of evasion and falsification. It has also been considered whether the proceeds of the sale of food supplies. This would mean that the quickest and most effective way to apply pressure on the Jews to accept the decision of the Security Council would be to regard as certain that the Jews will never agree to such a proposal and it is a dangerous political move to make. It is doubtful whether we should apply such sanctions in such a way as to force the Jews to pay for food in cash.

8. Severance of trade relations with a most likely result for the Jews would not be able to obtain the food which we are on the point of purchasing. The loss of this fruit would mean a serious shortage of the fresh fruit available in the winter. There is considerable doubt as to the availability of Spanish oranges and the Palestine crop is all that is necessary. If the Palestine crop but not the Spanish crop is still (owing to a bad some crop) have less than one half of last year's supply. Without the Palestine crop we shall be worse off still. If it is clear in the course of discussion that economic/...

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policy of sanctions, to prevent Socony from supplying. One grave disadvantage in the way of applying oil sanctions to the Jewish area is that the Jewish oil companies will be able to retaliate by appropriating the oil of Refinery, and will be able to do so with assistance of all other oil companies. The effect of such a situation would be to prevent the oil companies from being able to supply the Jewish area to the extent of their own production. 10. The Jewish oil companies will be able to retaliate by appropriating the oil of Refinery, and will be able to do so with assistance of all other oil companies. The effect of such a situation would be to prevent the oil companies from being able to supply the Jewish area to the extent of their own production.

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